

Agenda item:



**Decision maker:** Cabinet  
City Council

**Subject:** Capital Programme 2014/15 to 2019/20

**Date of decision:** 5<sup>th</sup> February 2015 (Cabinet)  
10<sup>th</sup> February 2015 (City Council)

**Report by:** Head of Finance and Section 151 Officer

**Wards affected:** All

**Key decision:** Yes

**Budget & policy framework decision:** Yes

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## 1. Executive Summary

- 1.1 In accordance with the Council's Capital Strategy and Medium Term Financial Strategy the Administration, through these proposals, have prioritised those schemes that meet the Council's statutory responsibilities that are most likely to drive regeneration across the City.
- 1.2 The programme has been designed to provide sufficient school places for the rising population and also support educational attainment by investing £15.7m into school buildings, targeting those resources at schools with the most acute needs.
- 1.3 Significant investment continues to be made into core City transport and building infrastructure in order to protect the City's seafront assets and enhance the City's attractiveness to business. Alongside investment for jobs and growth, are proposals to invest in local community led schemes to benefit residents.
- 1.4 Future plans are also proposed for a significant capital injection to the Portsmouth International Ferry Port so that it is positioned well to respond to a changing climate in shipping and has flexible facilities to accommodate passenger, freight and cruise trade.
- 1.5 Finally, there are a range of proposals that seek to increase the income generating capacity of the Council itself and also to improve overall efficiency so that the Council is well positioned to meet its future savings requirements of £31m for the period 2016/17 to 2018/19.
- 1.6 To deliver these necessary schemes, the Administration proposes to "stretch" the Capital Resources available by relying on future years' capital grant allocations and future years' Community Infrastructure Levy contributions. The consequence of this is to reduce the resources that would otherwise be available in future years. The Administration considers that this is the best way of utilising capital resources

in accordance with the Council's Capital Strategy and Medium Term Financial Strategy.

## **2. Purpose**

2.1 The purpose of this report is to:

- Summarise the key features of the Capital Strategy approved by the City Council on 4<sup>th</sup> February 2009 and the revised Capital Investment Priorities of the City Council, approved by City Council on 24<sup>th</sup> January 2012
- Highlight the inter-relationship between the capital programme, the revenue budget and the Medium Term Financial Strategy
- Determine the corporate capital resources available including:
  - Adjustments for under and overspendings to the existing approved Capital Programme
  - Update the capital resources available for all new and changed grants, capital receipts, revenue contributions and other contributions
  - The identification of additional assets which the Administration wishes to declare surplus to requirements
- Seek approval of the overall Capital Programme and "new starts" (including the Housing Investment Capital Programme) for 2014/15 and future years in accordance with the Capital Strategy
- Describe and approve the Prudential Indicators arising from the revised Capital Programme 2014/15 to 2019/20
- Delegate authority to the Head of Finance and Section 151 Officer to alter the mix of capital funding to make best use of City Council resources

## **3. Recommendations**

3.1 It is recommended that:

- 1) The Revised Capital Programme 2014/15 to 2019/20 attached as Appendix 1 which includes all additions, deletions and amendments for slippage and re-phasing described in Sections 6 and 8 be approved.
- 2) The passported Capital Allocations (Ring-fenced Grants) as set out in Section 7 be noted.
- 3) The Head of Finance and Section 151 Officer be given delegated authority to determine how each source of finance is used to fund the overall Capital Programme and to alter the overall mix of financing, as necessary, to

maximise the flexibility of capital resources used and minimise the ongoing costs of borrowing to the Council.

- 4) The following schemes as described in Section 9 and Appendix 2 be reflected within the recommended Capital Programme 2014/15 to 2019/20 and be financed from the available corporate capital resources:

<b>Recommended New Capital Schemes</b>	<b>Corporate Resources Required £</b>	<b>Total Scheme Value £</b>
<b>Children &amp; Education:</b>		
School Condition Projects (including Vanguard Centre and Mayfield East Playing Field)	3,950,000	3,950,000
Primary School Places Expansion	11,706,000	11,706,000
Adaptations to Foster Carers Properties (Grants)	150,000	150,000
<b>Culture, Leisure &amp; Sport:</b>		
Loan Advance for the Fitting Out of The New Theatre Royal	150,000	150,000
<b>Environment &amp; Community Safety:</b>		
Long Curtain Moat Detailed Design	277,000	277,000
<b>Housing:</b>		
Support For Vulnerable People	200,000	1,212,600
Grosvenor House Refurbishment	100,000	3,188,000
<b>Planning, Regeneration &amp; Economic Development:</b>		
Limberline Road Phase 3 (subject to a satisfactory financial appraisal to be approved by the Head of Finance & S151 Officer)	762,000	4,242,000
City Centre Public Realm Improvements	500,000	500,000
District Shopping Centre Improvements	100,000	100,000
Improvements to Community Facilities (Fratton Area)	100,000	100,000
Seafront Development	100,000	100,000
<b>Resources:</b>		
Landlord's Maintenance	1,000,000	1,000,000
Business Intelligence & Electronic Document Management System Requirement Specifications & Implementation of one option	850,000	850,000
Web Phase 2 & Channel Shift	635,000	635,000
<b>Traffic &amp; Transportation:</b>		
Local Transport Plan 3 (including Eastern Road Waterbridge and Anglesea Road Footbridge)	1,865,000	2,362,900
Verge Hardening	100,000	100,000
St. Mary's Road & Milton Road Crossings	60,000	60,000
<b>Total Recommended Sum to be Approved</b>	<b>22,605,000</b>	<b>30,683,500</b>

- 5) It be noted that the Improvements to Community Facilities (Fratton Area) of £100,000 in recommendation 4) above is available for the community to use to enhance the overall community provision but is conditional upon the scheme demonstrating that it will lead to the City Council realising savings in future years.
- 6) The following schemes as described in Section 10 and Appendix 2 be approved as Invest To Save Schemes and funded from Prudential Borrowing (subject to the approval of a detailed financial appraisal by the Head of Finance & S.151 Officer) up to the limit shown:

	<b>Prudential Borrowing Required £</b>
Demolition of Floating Dock Jetty and Lengthening of Berth 2	16,985,000
Limberline Road Phase 3	3,480,000
Utility Management & Consumption Reduction	1,080,000
<b>Total Recommended Sum to be Approved</b>	<b>21,545,000</b>

- 7) The Harbour School Fratton located in Penhale Road is declared surplus to requirements and disposed.
- 8) The following Schemes as described in Section 13 be included within the "Reserve List" of Capital Schemes to be considered once additional capital resources are identified.

<b>Future Priority Capital Schemes – Not in Priority Order</b>
Early Years School Places
Seafront Improvements
Port Development
Dunsbury Hill Farm Development
Provision of Sites For Student Accommodation

- 9) As outlined in Section 12 and Appendix 2 the City Council note the use of Portfolio Specific Reserves to fund the following scheme:

	<b>Total Portfolio Reserve Funding £</b>
<b>Environment &amp; Community Safety:</b>	
Surface Water Separation	65,000
<b>Total Use of Portfolio Reserves</b>	<b>65,000</b>

- 10) The City Council note that Prudential Borrowing can only be used as a source of capital finance for Invest to Save Schemes as described in Section 14.

- 11) The Prudential Indicators described in Section 14 and set out in Appendix 4 be approved.

#### 4. Background

4.1 On the 4<sup>th</sup> February 2009 the City Council approved the Capital Strategy 2008 - 2018. The key features of that strategy, which have been considered in the development of the Administration's Capital Programme proposals, are as follows:

- Contribution to the Corporate Plan & Vision for Portsmouth for non commercial activities
- Rate of return and payback for commercial activities
- Retention of Community Assets
- Retention and maintenance of Heritage Assets
- The extent and level of surety of external funding
- The use of Capital Investment Options Appraisal
- A whole life cost approach to Capital Investment
- Delivery of Value for Money
- The approach to risk - the expected benefits must outweigh the risk
- Any overspendings on approved Capital Schemes being the first consideration for the use of any available capital resources

4.2 On 24<sup>th</sup> January 2012 the City Council approved the "Capital Investment Aspirations and Priorities 2011/12 and the Future". This update report to the Capital Strategy 2008 – 2018 revised the Capital Investment Priorities, as the Capital Strategy was in its 3<sup>rd</sup> year, and proposed the following categories of Capital Schemes that are the priorities for attracting Corporate Capital Funding:

- **Category 1** - Programmes of a recurring nature that are essential to maintain operational effectiveness
- **Category 2** - Specific schemes that:
  - Have a significant catalytic potential to unlock the regeneration of the City
  - Are significant in terms of the Council strategies that they serve
  - Are significantly efficiency generating
  - If not implemented would cause severe disruption to Service delivery

- 4.3 The Capital Programme for 2015/16 will be the sixth year that fully embraces the revised financial framework for allocating capital resources to new capital schemes. The financial framework approved within the Capital Strategy has evolved from the previous framework based on passporting of funding, to one that is based on pooling resources designed to offer Members greater choice and transparency with the overall aim of delivering better outcomes from the resources available. It seeks to strike the correct balance of allocating capital resources between short and medium term needs and priorities and longer term aspirations, in order to support the delivery of the 10 year Capital Strategy.
- 4.4 The Administration have focussed their available Capital Resources primarily towards improving the condition of school buildings and increasing the number of pupil places within primary schools to meet forecast increases in demand.
- 4.5 The next large physical regeneration project planned by the City Council over the next 5 - 10 years is the seafront development, which includes improvement of sea defences and key sites identified in the seafront master plan. Consistent with this plan, the Council was recently awarded capital funding of £43m by The Environment Agency to complete improvements to the sea defences at North Portsea. The award of this funding was predicated on the Council having developed the proposal to the detailed design stage, which necessitated the Council incurring expenditure in advance of the award at its own risk. Had the detailed design not been completed in advance, it is unlikely the Council would have been as successful in its funding bid. As a result the Administration's proposals include further "seed" funding for detailed design proposals of sea defences at Long Curtain Moat Southsea in preparation for a further funding bid to The Environment Agency of circa £50m.
- 4.6 Other regeneration schemes in the pipeline include housing and employment space developments at Port Solent, Tipner and Horsea under the City Deal Programme and the development of a Science and Technology Business Park at Dunsbury Hill Farm.

## **5. Considerations in Formulating the Revised & Future Capital Programme**

- 5.1 In considering the revised Capital Programme for 2014/15 and the future Capital Programme for 2015/16 to 2019/20, the following factors have been taken into account:
- The outline Medium Term Financial Strategy with its bias towards driving regeneration
  - The Council's Capital Strategy, which informs the capital investment needs, priorities and aspirations of the Council
  - Any over or underspendings against approved capital schemes
  - The priority and immediacy of new capital schemes and the revenue impacts of those capital schemes

- The availability of capital resources and the potential risks associated with those capital resources being realised
- The inter-relationship with the Revenue Budget, in particular the additional revenue costs associated with the proposed new capital schemes
- The effective exclusion of the use of Prudential Borrowing, except for Invest to Save Schemes, arising from the unaffordability of its associated borrowing costs

5.2 To determine the capital resources available, all capital funding sources have been reviewed. This review covered all of the resources anticipated to be available over the medium term. In assessing the level of anticipated capital resources available, a prudent and responsible approach has been taken and only those resources that have a high degree of certainty and that are likely to be available within a reasonable time frame have been included.

## 6. **Revised Capital Programme – 2014/15 to 2019/20**

6.1 Since the revised Capital Programme 2013/14 to 2018/19 was approved in November 2013, other schemes that have not required corporate capital resources have been added to the recommended Capital Programme shown in Appendix 1. These schemes have been funded from sources such as Specific Grants, Contributions or other scheme specific capital resources.

6.2 The Capital Programme approved in November 2013 (incorporating the Housing Investment Programme) has been further revised to reflect additions, changes, under and overspendings, slippage and revised phasing of capital schemes. Further details of these changes are set out in Section 8. The revised capital programme for 2014/15 and beyond is attached at Appendix 1 and is recommended for approval.

## 7. **Passported Capital Allocations (Grants)**

7.1 Set out below is the current position on all new ring-fenced Grant Allocations for 2015/16. The allocation is passported directly to the relevant Portfolio/Board so that they can be applied in accordance with the conditions for their use.

<b>Grant</b>	<b>Grant Description</b>	<b>Allocation</b>
<b>Children's &amp; Education Services:</b>		
Devolved Formula (indicative allocation)	Devolved Formula Capital Grant (DFCG) is a Standards Fund grant that allocates capital funding to schools. The grant is used to fund capital improvements/maintenance, remodelling and/or new build.	440,000
<b>Health &amp; Wellbeing Board:</b>		
Disabled Facilities Grant (indicative allocation)	To be allocated in accordance with the arrangements for the distribution of the Better Care Fund	748,000
Department of Health Grant (indicative allocation)	To be allocated in accordance with the arrangements for the distribution of the Better Care Fund	496,000
<b>Total Ring Fenced Grant Allocations</b>		<b>1,684,000</b>

## 8. **Forecast of Corporate Capital Resources (Non Passported) 2015/16 & Beyond**

8.1 The forecast of corporate capital resources (i.e. non passported sources of finance) available to the City Council for new capital schemes comprise the following and are described in more detail in the paragraphs below:

- Contributions to the "Corporate Pool" of all non ring-fenced capital grants from Government, commonly referred to as the "Single Capital Pot" allocations
- The anticipated balance on the Revenue Reserve for Capital
- Changes to the existing Capital Programme - additions or deductions for any changes in the costs or funding requirements associated with the existing capital programme
- Any allowances for Prudential Borrowing (unsupported borrowing)
- The forecast value of additional capital receipts taking into account:
  - New assets declared surplus to requirements



- Any increase or decrease in the estimated value of existing assets to be disposed of
- Any requirements to provide for affordable housing, parking or any other conditions which could have a significant impact on the disposal value and other costs associated with disposal
- Other Corporate Capital Grants & Contributions e.g. Community Infrastructure Levy
- Any Revenue Contributions to Capital

Contributions to the Corporate Pool including the “Single Capital Pot” allocations

- 8.2 The Council receives allocations of capital funding each year under the guise of the “Single Capital Pot”. The “Single Capital Pot” is not a grant or capital allocation in itself but is a term used to define all non ring-fenced Government Supported Capital Expenditure (either Grant or Supported Borrowing).
- 8.3 Government Supported capital expenditure is a combination of bid based and formula based allocations. These allocations take the form of a direct Capital Grant.
- 8.4 The Single Capital Pot is intended to be a non ring-fenced source of finance and available for directing towards the priorities of the Authority. In practice however, the Single Capital Pot allocations are notified to individual Authorities in terms of the amounts that each Government Department has contributed. Furthermore, those Government Departments have an expectation that the amounts that they have allocated to each Authority will be directed towards their services. If these sums are not spent in the areas to which they are allocated, it is possible that future allocations could be jeopardised. This practice is contradictory to the principles of both the Single Capital Pot and the Council’s Capital Strategy that is now in place.
- 8.5 In addition, there are other non ring-fenced sources of capital funding that are Corporately Pooled such as:
- Capital Receipts from the Sale of Council Houses
  - Capital Receipts from the Sale of other HRA Assets
  - Section 106 Contributions

- 8.6 The allocations which were previously passported directly to Portfolios and which now contribute towards the “Corporate Pool” as part of the overall sum of Capital Resources available are as follows:

<b>Contributions to Corporately Pooled Resources</b>		<b>Full Year Allocation</b>	<b>Allocated in Previous Years</b>	<b>Net</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Culture, Leisure &amp; Sport:</b>				
	S106 (Open Spaces)	163		163
<b>Education:</b>				
	LA Basic Need - 2015/16	6,112	(791)	5,321
	- 2016/17	6,418		6,418
	DfE - Capital Maintenance			
	- 2014/15	2,247	(1,629)	618
	- 2015/16	1,173		1,173
	S106 (Education)	1,122		1,122
<b>Housing:</b>				
	Capital Receipts - Sale of Council Houses	1,230		1,230
<b>Traffic &amp; Transportation:</b>				
	LTP - IT Block - 2014/15	1,851	(2,226)	(375)
	- 2015/16	1,851		1,851
	S106 (Sustainable Transport)	135		135
<b>Community Infrastructure Levy</b>		1,422		1,422
<b>Total Contributions to Corporate Pool</b>		<b>23,724</b>	<b>(4,646)</b>	<b>19,078</b>

- 8.7 It should be noted that the maintenance element of the Local Transport Plan (LTP) has not been pooled and is earmarked to fund part of the Unitary Charge paid to Ensign under the Highways PFI contract. This amounts to £1.43m in 2015/16 inclusive of increased funding to tackle pot holes.
- 8.8 It should also be noted that the Administration has relied on all of the LA Basic Need Grant for the years 2015/16 and 2016/17 to fund scheme proposals scheduled to commence in 2015/16 for additional school places required over the medium term.
- 8.9 The impact of committing future capital resources to schemes commencing in 2015/16 (completing in 2016/17) is to significantly reduce the Corporate Capital Resources that will be available in 2016/17 with the consequence that the number and/or size of category 1 or category 2 new scheme starts in 2016/17 will be significantly reduced.

## Revenue Reserve for Capital & Revenue Contributions to Capital

- 8.10 The Revenue Reserve for Capital has been built up over a number of years from Revenue Contributions to finance capital schemes and as at 31<sup>st</sup> March 2014 stood at £22.1m. Sums are transferred into this reserve in advance and then drawn from the reserve once the capital expenditure is incurred.
- 8.11 The balance on the Revenue Reserve for Capital and the "in year" (2014/15) Revenue Contributions from/to this reserve have been taken into account in arriving at the overall level of capital resources available.

## Changes to the Existing Capital Programme

- 8.12 In arriving at the overall level of capital resources available, the current approved Capital Programme has been reviewed and amended, in accordance with the approved Capital Strategy, for under and overspending plus any adjustments for additions to or shortfalls in estimated funding. These adjustments are reflected in the proposed Capital Programme at Appendix 1. The more significant amendments to the existing Capital Programme are set out below:

### Underspendings:

- Seafront Heritage Lottery Fund Bid
- Canoe Lake
- 4 Sites Project
- Northern Road Bridge
- Grants to Registered Social Landlords
- Arthur Pope House

### Overspendings / Funding Shortfalls:

- The Hard Public Transport Interchange

### In Year Additions:

- Pyramids LED Lighting
- Hampshire Community Bank
- Superconnected Cities
- Guildhall Internal Works
- Municipal Bonds Agency Investment
- IS Server and Database Upgrades
- Data Centre Phase II
- Clean Vehicle Technology
- Green Deal Communities
- Universal Infant Free School Meal Provision

- 8.13 The funding required to finance the overall recommended Capital Programme attached at Appendix 1 plus the changes described in this Section and Sections 6 and 7 have been fully taken into account in arriving at the capital resources available.

## Prudential Borrowing

- 8.14 Prudential Borrowing is what is termed “unsupported borrowing” and means that the Government does not provide any revenue support through Government Grant for the repayment of that debt (neither principal nor interest). The City Council therefore, must fund all of the repayments associated with this type of borrowing. There are strict rules governing the use of Prudential Borrowing around the concepts of Affordability, Sustainability and Prudence. Thus far, the City Council has only been able to utilise Prudential Borrowing for Invest to Save Schemes where there is a demonstrable case that the capital expenditure incurred will result in savings that at least cover either the cost of borrowing or, alternatively, where other savings can be made to cover those borrowing costs.

## Capital Receipts

- 8.15 In forecasting the level of Capital Resources available to the City Council over the medium term, the following core assumptions have been made:
- Capital receipts have only been assumed for the disposal of assets that have been approved by Members
  - Capital receipts are only assumed where they are expected to be realised within a reasonable timeframe since there are inherent risks associated with changing circumstances over longer time periods
  - Some of the more significant capital receipts being relied upon to fund the current capital programme include:
    - Sale of Council Houses
    - Anson Road
    - Archive Store
    - Corben Lodge
    - Derby House
    - Edinburgh Lodge
    - Greetham Street Car Park & Drummond House
    - Highland Road Public Toilets
    - Hilsea Lodge
    - Limberline Unit
  - Revisions to reflect the current financial conditions in the property market
- 8.16 As part of the Capital Investment proposals set out in this report, the Administration are planning to re-locate the current Harbour School, Fratton in Penhale Road to the Vanguard Centre. This will also involve a comprehensive re-configuration and refurbishment of the centre to ensure that it meets the specific needs of the children. As a consequence, the Administration declares this site "Surplus to Requirements" and recommends its disposal.

### Corporate (Non ring-fenced Capital Grants)

8.17 The Capital Programme also relies upon other non ring fenced Capital Grants

### Summary of Total Available Capital Resources

8.18 Taking all of the above factors into account, as well as making some contingency provision for contractual disputes and other potential costs, the Capital Resources available at this time are as follows:

<b>CORPORATE CAPITAL RESOURCES AVAILABLE</b>	<b>£000</b>
Corporate Capital Resources (including "Pooled Resources")	22,605
<b>Add:</b> Funds Released from Uncommitted Schemes	Nil
<b>Total Corporate Capital Resources Available</b>	<b>22,605</b>

## **9. Priority Capital Schemes – 2015/16 & Beyond (Corporate Resources)**

- 9.1 The programme has also been designed to support schools in improving educational attainment by investing £15.656m into school buildings and targeting those resources at schools with the most acute needs for new places and repair works.
- 9.2 The Administration plan to support the economic growth of the City by creating industrial units, improving the attractiveness of the City Centre and District Shopping Centres and commencing the detailed design of sea defences at Long Curtain Moat Southsea in order to protect the City's seafront assets. Significant investment also continues to be made into other core services such as Transportation to enhance the City's attractiveness to businesses and residents alike.
- 9.3 As described elsewhere in this report, the Administration's proposals also provide for the investment into community facilities in Fratton.
- 9.4 As described in Section 8, the Administration have "stretched" the Capital Resources available by relying on future years' capital grant allocations and future years' Community Infrastructure Levy contributions. The consequence therefore of delivering these high impact schemes is to reduce the resources that would otherwise be available in future years. The Administration considers that this is the best way of utilising capital resources in accordance with the Capital Strategy.
- 9.5 At this time the Administration is recommending the allocation of £22.605m to the following capital schemes which it deems to be of particular importance to the delivery of its Capital Strategy:

<b>Capital Scheme</b>	<b>Capital Strategy Short / Medium Term Need &amp; Priority (Corporate Plan) or Long Term Aspiration (Portsmouth Vision)</b>	<b>Corporate Resource Allocation £</b>	<b>Total Scheme Value £</b>
School Condition Projects (including Vanguard Centre and Mayfield East Playing Field)	Category 1 - Short / Medium Term Need & Priority - Raise Standards in English & Maths through maintenance and enhancement of the learning environment. Ensuring that buildings are in the right condition and are suitable for learning needs	3,950,000	3,950,000
Primary School Places Expansion	Category 2 - Short / Medium Term Need & Priority – Raise Standards in English & Maths Ensuring adequate class room capacity in the medium term and are suitable for learning needs	11,706,000	11,706,000
Adaptations to Foster Carers Properties (Grants)	Category 1 - Short / Medium Term Need & priority - Improve the availability, affordability and quality of housing	150,000	150,000
Loan Advance for the Fitting Out of The New Theatre Royal	Category 2 - Short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	150,000	150,000
Long Curtain Moat Detailed Design	Category 2 - Short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	277,000	277,000
Support For Vulnerable People	Category 1 - Short / Medium Term Need & priority - Improve the availability, affordability and quality of housing	200,000	1,212,600

<b>Capital Scheme</b>	<b>Capital Strategy Short / Medium Term Need &amp; Priority (Corporate Plan) or Long Term Aspiration (Portsmouth Vision)</b>	<b>Corporate Resource Allocation £</b>	<b>Total Scheme Value £</b>
Grosvenor House Refurbishment	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	100,000	3,188,000
Limberline Road Phase 3	Category 2 - Long Term Need & Priority - Regenerate the City by providing an attractive place for businesses to settle	762,000	4,242,000
City Centre Public Realm Improvements	Category 2 - Long Term Need & Priority - Regenerate the City by providing an attractive place for businesses to settle	500,000	500,000
District Shopping Centre Improvements	Category 2 - Long Term Need & Priority - Regenerate the City by providing an attractive place for businesses to settle	100,000	100,000
Improvements to Community Facilities (Fratton Area)	Category 2 - Long Term Need & Priority - Regenerate the City by providing an attractive place for businesses to settle	100,000	100,000
Seafront Development	Category 2 - Long Term Need & Priority - Regenerate the City by providing an attractive place for businesses to settle	100,000	100,000
Landlords Maintenance	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	1,000,000	1,000,000

<b>Capital Scheme</b>	<b>Capital Strategy Short / Medium Term Need &amp; Priority (Corporate Plan) or Long Term Aspiration (Portsmouth Vision)</b>	<b>Corporate Resource Allocation £</b>	<b>Total Scheme Value £</b>
Business Intelligence & Electronic Document Management System Requirement Specifications & Implementation of one option	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities by ensuring "back office" infrastructure is suitable for purpose	850,000	850,000
Web Phase 2 & Channel Shift	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities by ensuring "back office" infrastructure is suitable for purpose	635,000	635,000
Local Transport Plan 3 (including Eastern Road Waterbridge and Anglesea Road Footbridge)	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	1,865,000	2,362,900
Verge Hardening	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	100,000	100,000



<b>Capital Scheme</b>	<b>Capital Strategy Short / Medium Term Need &amp; Priority (Corporate Plan) or Long Term Aspiration (Portsmouth Vision)</b>	<b>Corporate Resource Allocation £</b>	<b>Total Scheme Value £</b>
St. Mary's Road & Milton Road Crossings	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	60,000	60,000
<b>Total Corporate Capital Resources Allocated</b>		<b>22,605,000</b>	<b>30,683,500</b>

- 9.6 Of the 18 schemes above recommended for approval, 10 are explicitly outlined within the Capital Strategy. Future additions to the Strategy will be made using this Capital Programme Review exercise as its annual re-fresh.
- 9.7 The proposed Capital Schemes recommended for approval are described in more detail in Appendix 2 and set out:
- Description of the Scheme and its key aims
  - The total cost of the scheme including funding from other sources
  - The net cost of the scheme to be funded from Corporate Capital Resources
  - Any additional on-going revenue costs/savings associated with the scheme
- 9.8 The allocation to the Improvements to Community Facilities (Fratton Area) is conditional upon the scheme demonstrating that it will lead to the City Council realising savings in future years.
- 9.9 The indicative 2015/16 Local Transport Plan (LTP) is set out in Appendix 3.

## 10. New Capital Schemes To Be Funded From Prudential Borrowing

10.1 The following schemes meet the Prudential Borrowing Criteria outlined at Paragraph 8.14 and it is recommended that prudential borrowing up to the limit shown for each scheme is approved.

<b>Capital Scheme</b>	<b>Capital Strategy Short / Medium Term Need &amp; Priority (Corporate Plan) or Long Term Aspiration (Portsmouth Vision)</b>	<b>Prudential Borrowing Required £</b>
Limberline Road Phase 3	Category 2 - Long Term Need & Priority - Regenerate the City by providing an attractive place for businesses to settle	3,480,000
Utility Management & Consumption Reduction	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities by improved efficiency.	1,080,000

10.2 The City derives significant economic benefits from the Port and for many years the Council and its residents have received a direct financial benefit from the surpluses that it produces. The future success of the Port is dependent on a continued pipeline of capital investment into its infrastructure to ensure that it remains a facility that is attractive for trade.

10.3 The Administration has plans for, and proposes, a significant investment in the Portsmouth International Port. The plans involve the removal of "Asia Pontoon", a Naval Base facility which serves as an obstacle for larger vessels being accommodated at the Port. Similarly with the trend of larger ships, the Port will require longer berths. To accommodate this trade and both retain and have the opportunity to secure new business, the Port will require investment to accommodate both. At this early stage, it is estimated that a capital investment of £17m will be required.

10.4 It is recommended that this investment in the Port be approved and funded by Prudential Borrowing but subject to a satisfactory business plan, backed by commitments from customers for new trade, and supported by a detailed financial appraisal which satisfies the Head of Finance & S.151 Officer. This appraisal must demonstrate that any borrowing costs can be met from cost savings and additional income directly associated with the investment. The investment is set out below:

<b>Capital Scheme</b>	<b>Capital Strategy Short / Medium Term Need &amp; Priority (Corporate Plan) or Long Term Aspiration (Portsmouth Vision)</b>	<b>Prudential Borrowing Required £</b>
Demolition of Floating Dock Jetty, Lengthening of Berth 2 and additional passenger facilities	Category 1 - Short / Medium Term Need & Priority – Regenerate the City by securing the existing trade through the Ferry Port and attracting new business	16,985,000

## 11. New Capital Schemes To Be Funded From The MTRS Reserve

- 11.1 No new capital schemes have been added which require funding from the MTRS Reserve.

## 12. New Capital Schemes To Be Funded From Portfolio Specific Reserves

- 12.1 The City Council note the use of the Environment & Community Safety Portfolio Specific Reserve to fund the following scheme

### Surface Water Separation

It is proposed that a programme to remove highway run-off from the combined sewer system, reducing flood risk across the city is implemented at a cost of £65,000.

## 13. Future Priority Capital Schemes

- 13.1 In addition to the Capital Investment proposals described above, the Administration is keen to plan a path ahead in accordance with the Capital Strategy and set out their future proposals for Capital Investment once further Capital Resources become available. The Administration's proposals are set out below.

<b>Future Priority Capital Schemes – Not in Priority Order</b>
Early Years School Places
Seafront Improvements
Port Development
Dunsbury Hill Farm Development
Provision of Sites For Student Accommodation

## 14. Prudential Borrowing and Prudential Indicators

- 14.1 Prudential Borrowing is a potential source of capital finance under the Local Government Act 2003. This requires that Local Authorities comply with the Prudential Code for Capital Finance. The key objective of the Prudential Code is to ensure that the capital investment plans of local authorities are Affordable, Prudent and Sustainable. The Prudential Code sets out a clear governance procedure for those matters that the Authority must have regard to as follows:
- **Affordability** e.g. implications for Council Tax and Council housing rents
  - **Prudence and Sustainability** e.g. implications of external borrowing
  - **Value for money** e.g. options appraisal
  - **Stewardship of assets** e.g. asset management planning
  - **Service objectives** e.g. strategic planning for the authority
  - **Practicality** e.g. achievability of the forward plan
- 14.2 Prudential Borrowing requires that the capital investment of the Authority remains within sustainable limits and that the revenue consequences, including both debt financing and other revenue costs, are affordable over the long term. In considering the affordability of its Capital plans, the Authority must consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years as a minimum. The Authority is also required to consider known significant variations beyond this timeframe and pay due regard to risk and uncertainty.
- 14.3 Whilst the City Council is able to set a balanced budget in 2015/16, this is only by drawing on Revenue Balances of £1,150,000. Furthermore, current forecast revenue deficits amount to £13.2m in 2016/17, £21.1m in 2017/18 and £31.2m in 2018/19. **This means that until such time as the Council is able to balance its budget over the medium term, it is unable to demonstrate that it can afford any additional borrowing costs over that period and therefore cannot demonstrate compliance with the affordability test of the Prudential Code. Prudential Borrowing is available however, for Invest to Save Schemes.**
- 14.4 The Secretary of State has reserve powers to impose regulations on Local Authorities if it feels that an Authority is either not compliant with the code or if it is in the national economic interest. These reserve powers include:
- National Borrowing Limits – if there are national economic reasons
  - Borrowing Limits for an individual Authority
  - Limits set either nationally or locally for different kinds of borrowing
  - Any headroom that a Local Authority has under National Borrowing Limits that may be transferred between Authorities
- 14.5 The Prudential Indicators of the Council are determined largely from its Capital Investment decisions and are presented in Appendix 4. In summary, the Council's indicators illustrate that its current Capital Programme is affordable. The ratio of

financing costs to net revenue stream for the General Fund are estimated to be 9.8% in 2014/15, rising to 15.1% by 2019/20. For the Housing Revenue Account, fixed borrowing costs range from 12.1% in 2014/15 falling to 11.4% by 2019/20. The forecast HRA balance for the next 5 years remains in surplus indicating that this is a sustainable level of borrowing.

- 14.6 Represented in terms of the effect on a Band D taxpayer, the revenue effect (i.e. additional costs/savings against the revenue budget) of the recommended capital programme is expected to be a reduction of £1.21 per annum per taxpayer in 2016/17 or a 0.1% reduction in the Council Tax.
- 14.7 The Council's underlying need to borrow to finance its current and future capital expenditure (i.e. its Capital Financing Requirement) is falling. The Council's 2014/15 revised Operational Boundary is £483.5m and is forecast to fall to £449.1m over the period to 2019/20.
- 14.8 The Council's Limit for External Debt, recommended at £503.2m for 2015/16, should be broadly equivalent to its underlying need to borrow (described above) but should allow for a little headroom in excess of it. This has been set accordingly. Furthermore, the Operational Boundary for external debt serves as a limit/early warning tool to highlight whether the External Limit is nearing a breach. This therefore, is set at the level to which external debt is more likely to be.

## **15. Conclusion**

- 15.1 The Capital Programme and new capital schemes recommended as part of this report attempt to strike the right balance between meeting the short and medium term needs and priorities of the Council and the longer term aspirational vision for the City.
- 15.2 In particular, the proposals seek to meet the Council's statutory obligations to provide sufficient school places and to support schools in their pursuit of improved educational attainment. As a whole, the Capital Programme is designed to drive economic growth, support schools in their pursuit of improved educational attainment, generate savings and income for the Council in order to protect services from cuts and continue to protect the vulnerable in society. The programme is clearly aligned with the Medium Term Financial Strategy and the approved Capital Strategy.
- 15.3 This programme sets out the future Capital Investment agenda for the Council. It looks beyond the coming year and uses a financial framework for allocating capital resources based on the concept of pooling non-ring fenced resources so that there is greater transparency and choice for new capital investment with greater opportunity for enhanced outcomes for residents.

## 16. Comments of the City Solicitor

16.1 The City Solicitor has confirmed that it is within the City Council's powers to approve the recommendations set out above.

## 17. Equality Impact Assessment

17.1 This Capital Programme earmarks sums for future capital schemes. Prior to the commencement of any capital scheme, a report and financial appraisal on that scheme will be approved either by the Portfolio Holder, the Cabinet or the City Council and at that time an Equalities Impact Assessment will be undertaken.

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**Chris Ward**

**Head of Finance and Section 151 Officer**

### **Background List of documents –**

#### **Section 100D of the Local Government Act 1972**

**The following documents disclose facts or matters which have been relied upon to a material extent by the author in preparing this report –**

<i>Title of document</i>	<i>Location</i>
Capital 2015/16	Office of Deputy Head of Finance
Capital Strategy 2008 – 2018	Council's Web Site
Capital Investment Aspirations & Priorities 2011/12 and the Future	Council's Web Site

The recommendations set out above were approved/ approved as amended/ deferred/ rejected by the City Council on 10<sup>th</sup> February 2015

**Signed:** .....

**CAPITAL  
PROGRAMME  
&  
FINANCING**

**2014/15 – 2019/20**